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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

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RUEHAK/AMEMBASSY ANKARA 2714

RUEHBJ/AMEMBASSY BEIJING 0538

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RUCPDOC/DEPT OF COMMERCE WASHDC

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RHEFDIA/DIA WASHDC

RUEKJCS/Joint STAFF WASHDC

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RUEHBS/USEU BRUSSELS

RUEHNO/USMISSION USNATO 1307

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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000925

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STATE FOR SCA/CEN, EEB, PLEASE PASS TO USTDA DAN STEIN

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TAGS: FAIR ETRD PGOV PINR SOCI TX

SUBJECT: BOEING REP: TURKMENISTAN AIR FACES LONG ROAD TO WORLD CLASS STANDARDS

Classified By: Charge d'Affaires a.i. Richard E. Hoagland for reasons 1.4 (B) and (D).

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¶11. (SBU) SUMMARY: President Gurbanguly Berdimuhamedov has tasked the new CEO of Turkmenistan Airlines, Gurbanyaz Tirkishov, with fixing long-standing operational issues with the airline. Berdimuhamedov announced the intention to place an order for new aircraft, in part to service all of the new intended destinations to which Turkmenistan Airlines is expanding service as part of the president's new outreach policy. However, Tirkishov faces a veritable mountain of other challenges, including ticket pricing, ticketing infrastructure, and parts procurement. If Berdimuhamedov is serious about making Turkmenistan Airlines into a world-class airline, Tirkishov will have to take other steps besides purchasing new aircraft. Turkmenistan Airlines needs a severe overhaul of its bureaucracy, routing, and pricing structures to make it a viable entity. END SUMMARY.

PRESIDENT CALLS FOR AIRLINE TO MEET INTERNATIONAL STANDARDS

¶12. (C) When President Gurbanguly Berdimuhamedov appointed the new Chairman of Turkmenistan Airlines (and of the National Civil Aviation Service), Gurbanyaz Tirkishov, in March 2007, he instructed Tirkishov to create a world-class airline. On July 26, the president publicly criticized Tirkishov, but announced that Turkmenistan would purchase new 787-800 aircraft from Boeing. According to Boeing's Amcit Field Service Representative in Turkmenistan, this announcement stems from the president's desire to have his own new fleet. He does not want to fly in former President Saparmyrat Niyazov's old planes -- even those that were only flown for 11,000 hours, or are two years old.

BOEING REPRESENTATIVE SAYS PROBLEMS, BUREAUCRACY STIFLE

BUSINESS

¶3. (C) During a recent meeting with the Charge, the Ashgabat-based Boeing representative was scathing about one of his company's best customers. According to him, a top impediment to Turkmenistan Airline's efficient fleet management is the process of ordering parts needed for routine repairs to airplanes. Turkmenistan Airlines bureaucrats have the power to process only the most minuscule invoices independently, and the Deputy Cabinet of Ministers (i.e., vice-premier level) must approve all other purchases. As a result, three 737's are grounded and being used for parts.

¶4. (C) The Boeing representative claimed that bureaucratism and nepotism are also problems. In one case, one official let \$4 million in tools sit in customs for four years due to the lack of an "air worthiness certificate." However, the representative said, the air worthiness certificate is necessary only for parts that attach to the plane and become airborne. Therefore, an air worthiness certificate is unnecessary for these tools. It is also common to send unqualified people with family or other connections to attend training in Seattle in order to earn per diem, including translators who do not speak a word of English. Trainees take canned food to Seattle, pool the per diem at the end, and buy a BMW. (COMMENT: Per diem must be VERY generous. END COMMENT.)

TURKMENISTAN AIRLINES: THE REAL, DREADFUL SITUATION ON THE GROUND

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¶5. (U) Turkmenistan Airlines was run as a primary pet project of former President Saparmyrat Niyazov. Throughout the 15 years since Turkmenistan's independence, it was a chief beneficiary of Niyazov's preference for high-quality goods (the airline has an all-Boeing fleet). Yet, it is a deeply troubled company which suffers from severe, chronic mismanagement and corruption:

-- One-way domestic Turkmenistan Airlines tickets cost 26,000-37,600 manat (about \$1.10 to \$1.50 at the unofficial rate). This price is affordable even for households with an average income of \$40-100 per month. However, the high demand for travel is not met by the limited Boeing fleet. Only 13 daily domestic roundtrip flights depart from Ashgabat. There is also a thrice-weekly Balkanabat flight, and sporadic flights among the regions. The flight schedule is centrally regulated but is not based on market research.

-- Turkmenistan Airline's ticket prices are obviously artificially managed. A flight from Dashoguz to Ashgabat takes 45 minutes and officially costs 31,000 manat, but a subsidized train takes 20 hours and costs 45,000 manat per seat or 50,000 manat per coupe seat. A taxi takes 10 to 12 hours at a rate of 250,000 manat per seat. A mini-van takes 12-14 hours and costs 180,000 per seat. A bus takes 18-20 hours and costs 100,000 manat per seat. In addition, roads are extremely dangerous and travelers must wait hours for their vehicle to fill with passengers before it will depart.

-- State ticket agencies are located in each city to which Turkmenistan Airlines flies. At 04:00 each morning, customers register on an informal order-of-arrival list and then wait at the ticket office. Tickets can be bought only in person and with cash. Customers can buy tickets for a particular date only eight days before the actual date of travel. Although customers can theoretically buy tickets between this date and the actual date of travel, they are typically sold out after the first day. Normally, customers wait six to nine hours with no guarantee of getting a ticket. Clerks must check for ticket availability by calling the main office in Ashgabat for each customer request and then hand-write all tickets.

-- A proportion of the seats on every flight are reserved for each ministry in case of urgent business. If officials do not use these tickets then they can be bought at a sales office in each airport directly before a flight.

-- The high demand and limited supply creates a deep black market in airline ticket sales. According to a local embassy staff member, bribes for domestic tickets range from 100,000 to 270,000 manat and travelers must purchase the scalped tickets through a contact outside of the airline office. Finding a black-market contact is usually difficult and requires connections. Some contacts require favors as well as cash to help procure a ticket. Government officials frequently use their reserved seats for personal travel, as gifts to family members, or to sell.

¶6. (SBU) COMMENT. Just as a shiny coat of paint won't make a house on its last legs more structurally sound, Turkmenistan Airlines needs more than new aircraft to make it into a world-class airline. Turkmenistan Airlines is a microcosm of how social-contract subsidies feed corruption, abuse, and inefficiency throughout the government and state-run companies. The state airline needs a severe overhaul of its bureaucracy, routing, and pricing structures to make it a viable entity. END COMMENT.

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